

Message Text

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17

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 PRS-01 /096 W

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P R 200833Z AUG 76

FM AMEMBASSY TOKYO

TO TREASURY DEPT WASHDC PRIORITY

SECSTATE WASHDC 1762

INFO AEMBASSY BONN 2087

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

C O N F I D E N T I A L TOKYO 12642

TREASURY FOR SPRINGBORN AND SYVRUD

STATE PASS FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: TOKYO FOREX MARKET PRESSURES AUGUST 16-20

1. YEN STRENGTHENED ABRUPTLY THIS WEEK, REACHING HIGH OF 288 YEN/DOLLAR ON WED AT WHICH POINT BOJ INTERVENED HEAVILY. U.S. BANKERS CONSIDER YEN MARKET PRESSURE AS A SPILLOVER FROM PRESSURES ON DM AND GENERAL DESIRE TO GET OUT OF WEAK AND INTO STRONG CURRENCIES INCLUDING YEN. BOJ OFFICIAL, ON OTHER HAND, CONSIDERS DOMESTIC FACTORS EQUALLY IMPORTANT IN EXPLAINING THIS WEEK'S TOKYO FOREX MARKET DEVELOPMENTS.

2. FRIDAY, AUG 13, YEN CLOSED IN TOKYO AT 292.35/DOLLAR, BUT IN EUROPEAN TRADING WAS RUN UP TO 290 AND IN U.S. TO
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289.80. ON MONDAY, TOKYO TRADING OPENED AT 290.60 AND,

AFTER RECEIVING SMALL AMOUNT OF OFFICIAL SUPPORT, ROSE IN AN ORDERLY MARKET TO CLOSE AT 290. TRADING ON TUES WAS CALM WITHIN NARROW RANGE OF 290 - 290.30. HOWEVER, IN NEW YORK TRADING, YEN REACHED 288 SO THAT ON WED MORNING TRADING IN TOKYO OPENED AT THAT LEVEL. BOJ APPARENTLY PROVIDED SUPPORT ALL DAY BUT IN AFTERNOON TRADING THERE WAS SUDDEN AND EXCEPTIONALLY HEAVY DOLLAR SELLING WITH BOJ REPORTEDLY BUYING \$150 MIL OUT OF TOTAL INTER-BANK SOFT MARKET DEALINGS OF \$250 MIL THAT DAY. PRESSURES ABATED ON THURS AND AGAIN ON FRIDAY WITH DOLLAR STRENGTHENING IN AN ORDERLY MARKET.

3. U.S. BANKERS CONSIDER OVERSEAS SPECULATION ABOUT POSSIBLE DM REVALUATION AND DESIRE TO MOVE FUNDS INTO STRONG CURRENCY HAD SPILLOVER EFFECT ON YEN. IN PART THIS IS ATTRIBUTED TO "INTERNATIONALIZATION OF YEN" BUT APPARENTLY THERE WERE SOME GENUINE HEDGING OPERATIONS, PERHAPS IN CONNECTION WITH DOWN PAYMENT OR PROGRESS PAYMENTS ON INDUSTRIAL PLANT EXPORTS WHICH JAPAN HAS BEEN PROMOTING SO HEAVILY IN RECENT MONTHS. B OF A BELIEVES RATE WILL MOVE TO 285 BEFORE IT FINDS NEW SUSTAINABLE LEVEL WHEREAS MORGAN TRADER CITES 288 AS "REASONABLE" RATE. STRONG DEMANDS ON WED FOR FORWARD YEN WHICH DROVE RATE FROM DISCOUNT TO SLIGHT PREMIUM ON TWO AND THREE-MONTH CONTRACTS WAS ATTRIBUTED TO SPECULATIVE MOTIVES. OIL IMPORTERS, WHICH NORMALLY ARE AN IMPORTANT SOURCE OF FORWARD DOLLAR DEMAND, APPARENTLY HAVE BEEN OUT OF THE MARKET MOST OF THIS WEEK, HAVING PREVIOUSLY MADE HEAVY PURCHASES AT 294 RATE AND PERHAPS NOW WAITING TO SEE WHERE FORWARD RATES WILL SETTLE.

4. BOJ OFFICIAL HAD NO SPECIAL INTERPRETATION OF THIS WEEK'S MARKET BEHAVIOR BUT BELIEVED ROUGHLY HALF OF THE PRESSURE WAS DUE TO "UNCERTAINTY." BOJ STRATEGY HAD BEEN TO MAINTAIN ORDERLY MARKETS AND TO MINIMIZE SHIFTS IN MARKET EXPECTATIONS WITHOUT, HOWEVER, HAVING ANY SPECIFIC RATE OBJECTIVE. ON MON AND TUES, PRESSURES APPEARED IN EARLY TRADING BUT SOON SUBSIDED, ALLOWING MARKET TO BE ON ITS OWN AND ON THURS AND FRI MARKETS APPARENTLY OPERATED WITHOUT SUPPORT. ON WED AFTERNOON "UNBELIEVABLY HEAVY DOLLAR SELLING
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PRESSURE SUDDENTLY APPEARED," SAID BOJ OFFICIAL. APPARENTLY BOJ HAD BEEN PROVIDING SUPPORT TO THE MARKET ALL DAY AND WHEN SELLING WAVE HIT IT WAS SOLE BUYER. BOJ CONTACT CONCEDED, WITH EMBARRASSMENT, THAT OFFICIALS WERE IN MIDST OF REVIEWING THEIR INTERVENTION TACTICS WHEN MARKET WAS OVERWHELMED BY DOLLAR SELLING WAVE. BOJ HAD NO SET DOLLAR LIMIT ON INTERVENTION BEFORE CHANGING SUPPORT RATE SO THAT INTERVENTION JSUT CONTINUED. BOJ CONTACT ALSO

SAID THAT PRESSURE IN SPOT MARKET THEN CARRIED OVER TO
DOLLAR SELLING IN THE FORWARD MARKET, WHERE THERE IS AS
USUAL NO OFFICIAL SUPPORT.

5. FOLLOWING ARE TOKYO FOREX MARKET RATES AND TRADING
VOLUMES FOR WEEK:

	SPOT RATE		FORWARD DOLLARS		VOLUME (\$ MIL)	
	(YEN/DOL)		PREMIA IN PCT P.A.			
	OPEN	CENTRAL	3-MONTH	6-MONTH	SPOT	FORWARD
8/13	292.55	292.60	0.48	0.50	139	113
8/16	290.60	290.30	0.21	0.38	186	159
8/17	290.10	290.00	0.34	0.38	124	02
8/18	288.00	288.00 MIN	0.14	0.31	250	290
8/19	288.30	288.20	0.04	0.28	QEO	105
8/20	288.90	288.90	0.14	0.31	141	81.

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